Abolishment of CTT will Enhance Hedgers' Participation

- P. K. SINGHAL

PARVEEN KUMAR SINGHAL
Joint Managing Director, MCX

The Multi Commodity Exchange of India Limited (MCX), India's first listed exchange, is a state-of-the-art, commodity futures exchange that facilitates online trading, and clearing and settlement of commodity futures transactions, thereby providing a platform for risk management. Presently, Parveen Kumar Singhal is the Joint Managing Director of MCX. Mr. Singhal has over 39 years of diverse corporate experience in banking/financial services, financial institutions, securities and commodities market space. He has held positions such as Division Chief (Secondary Market) with Securities and Exchange Board of India (SEBI), Executive Director & CEO of Delhi Stock Exchange and Director with Forward Markets Commission (FMC). He has served as a member on important committees of SEBI such as Risk Management, Corporate Governance and Participation by Securities Brokers in Commodity Futures Market. He was also a Member of Regional Council of Institute of Company Secretaries of India (North India), and as an Advisory Board member of Haryana State Electronics Development Corporation Limited, member on the Board of National Commodity and Derivatives Exchange Ltd., and Cotton Association of India as a Nominee of FMC. He has attended diverse training programmes on securities and commodities markets at various institutions. He holds an MBA degree, Diploma in Business Finance and a Certificate on Capital Markets from the New York University, USA.

"If CTT is abolished, we are certain to witness enhanced hedgers' participation and a significant rise in trading interest in the commodity futures market," says **Parveen Kumar Singhal, Joint Managing Director of MCX** in an exclusive interview to **Metalworld.** Excerpts:

What are the present activities of MCX related to metal sector?

- For the last few months we have been focusing on settling a few outstanding matters on compliance within our exchange. With this task over, we are now targeting the growth of our business in the metal sector, in which we have an undisputed market leadership. We are regularly in touch with all stakeholders in the metal sector, particularly the physical market-players, to gauge their requirements and understand the extent to which our products or trading systems are addressing their needs. Wherever there is a perceived need for intervention in our products or processes, we do so, subject to regulatory approvals. We also conduct a number of awareness programmes, especially in co-ordination with various metal associations and industry bodies across the country, to popularize the benefits of futures trading and educate them on hedging techniques. In the first half of the current fiscal alone we have conducted 164 awareness programmes, as against 190 during 2013–14.

What kind of implication do you see with the entry of domestic institutional investors & foreign institutional investors?

- The entry of domestic financial institutions and foreign entities, which are currently not permitted in the commodity derivatives market, is quite important for the further growth of this market. Their entry will help the market in multiple ways. There will

immediately be a rise in market liquidity which will encourage hedging by using liquid far-month contracts. Higher liquidity will also encourage hedgers by providing tighter bid–ask spread, resulting in lower impact-cost for all participants.

At another level, participation of domestic financial institutions, such as banks, is also important for hand-holding the entry of retail participants in the commodity derivatives market. Banks themselves are exposed to commodity price risk through their lending to the commodity sector and need to participate in the exchange-traded derivatives market to manage their own risks. Besides, banks can also guide their customers to hedge on this market and promote aggregation or trade on their behalf to manage the customers' risk arising from their exposure to the commodity sector.

What kind of measures MCX is taking to restore lost volumes ?

- Volumes have fallen last year primarily due to the imposition of Commodity Transaction Tax (CTT) on non-agricultural commodities, which came into effect from 1st July 2013. CTT has increased the cost of trading by 300% on an average, leading to fall in hedging interest and other stakeholders' participation. If CTT is abolished, we are certain to witness enhanced hedgers' participation and a significant rise in trading interest in the commodity futures market.

Besides, as I have indicated, we have been giving top priority to corporate governance practices to achieve high standards of governance and boost trust of our stakeholders. Towards this end, we have also been holding regular meetings to improve services / processes and implement other changes. We are conducting regular training and awareness programmes to enhance our strategic growth, and also to contribute to financial literacy. We are particularly focused on spreading awareness to increase hedgers' participation on the exchange and are taking initiatives to include the small and medium enterprises into our fold for meeting their needs for commodity price risk management.

Do you see a consolidation in commodity exchange space ?

- As you are aware, only two commodity exchanges have almost 99% of the market share, and other exchanges do not have much participation or liquidity. Given current trends, there does appear to be polarization of the market into two segments of specialization: agri-commodities and non-agri-commodities. Accordingly, there does not seem to be much value addition to the market by the presence of multiple exchanges lacking product differentiation, leaving open the scope for consolidation. Ultimately, it is the forces of market and competition that will determine the number of exchanges in a market segment. Hence, I think that although there does not seem to be much merit in the presence of multiple illiquid and undifferentiated exchanges, the matter of consolidation in the exchange space is a market-led phenomenon, the outcome of which we are yet to witness.

How do you see the future of MCX & also the future of commodity exchanges in India ?

- I firmly believe that uncertainties that plagued MCX during the last one year are now matters of the past and a bright future await MCX and its stakeholders. With a competent board at the helm backed by credible shareholders, MCX is only going to march forward.

Further, the Indian economy being posed to regain its high growth potential, there is going to be increasing demand for commodities and need for commodity price risk management. This augurs very well for the future of MCX and other commodity exchanges in India. Recent policy measures taken by the government, such as deregulation of fuel, leading to market-determined pricing, as also measures to boost manufacturing through the 'Make in India' initiative, are testimonies to such an emerging trend.

The future would be brighter if the government moves ahead in amending the Forward Contracts Regulation Act, 1952; permits the launch of new commodity derivative instruments, such as commodity options and commodity indices; and allows participation of banks and other financial institutions in commodity derivatives trading. The recent recommendation of the Financial Stability Development Council's sub-committee to allow foreign traders and domestic financial intuitions in Indian commodity futures trading, will, if implemented, usher in new opportunities for both MCX and the commodity derivatives industry in general.